

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AF-10 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SPC-03 SS-15

USIA-15 ACDA-19 IO-13 AID-20 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

STR-08 CEA-02 DRC-01 (ADP) W
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P R 221254Z SEP 73

FM AMEMBASSY BONN

TO AMEMBASSY NAIROBI PRIORITY

INFO SECSTATE WASHDC 7592

UNCLAS SECTION 01 OF 02 BONN 13755

NAIROBI FOR SECRETARY SHULTZ

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FRG FINANCE MINISTER SCHMIDT'S INTERVIEW WITH
HANDELSBLATT

1. IN ITS SEPTEMBER 21 ISSUE, HANDELSBLATT, THE
FEDERAL REPUBLIC'S LEADING BUSINESS AND ECONOMIC DAILY,
PUBLISHED A FULL-PAGE INTERVIEW WITH FINANCE
MINISTER SCHMIDT ON THE PRESENT INTERNATIONAL MONETARY
SITUATION, UNDER THE CAPTION: QUOTE USA NO LONGER THE
MONETARY CAPTAIN-NEW MONETARY SYSTEM WILL COMPEL THE
USA TO (PRACTICE) DISCIPLINE, END QUOTE. THE ARTICLE
CONTAINS SCHMIDT'S VIEWS ON A POSSIBLE NEW SCENARIO FOR
REFORM, HIGHLIGHTING THE IMPORTANT ASPECTS OF SUCH A
NEW SYSTEM, AS WELL AS SOME COMMENTS ON THE PRESENT USG
POSITION COMPLETE WITH MILD CRITICISM ON USG ACTIONS
OVER THE PAST FEW MONTHS. THE FOLLOWING IS A BRIEF
SUMMARY OF THE INTERVIEW.

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2. SCHMIDT OPENED THE INTERVIEW BY STATING THAT IT IS

NECESSARY TO HAVE SYSTEM BASED ON FIXED EXCHANGE RATES BUT WITH MORE ADJUSTMENT FLEXIBILITY THAN WAS PRESENT IN THE BRETTON WOODS SYSTEM. HE SAID THAT AS LONG AS THE DOLLAR WAS FLOATING IT WOULD NOT BE PRACTICABLE TO INTRODUCE A NEW MONETARY SYSTEM. A NEW SYSTEM WOULD ONLY MAKE SENSE UNDER TWO CONDITIONS: FIRST, THE DOLLAR WOULD HAVE TO HAVE REACHED A NEW, ACCEPTED PARITY LEVEL; AND SECOND, THERE WOULD HAVE TO BE A DEMONSTRATED DETERMINATION TO DEFEND THAT PARITY AND, WHEN NECESSARY, TO REVALUE OR DEVALUE THE DOLLAR. UNDER THE NEW SYSTEM HE CONTINUED, ALL CURRENCIES WOULD MOVE WITHIN ESTABLISHED EXCHANGE RATE MARGINS, WHICH SHOULD BE THE SAME FOR THE MAJOR CURRENCIES, BUT NOT NECESSARILY FOR ALL CURRENCIES. IN THIS CONNECTION, SCHMIDT NOTED THAT THE COMMON MARKET (EC) MARGINS WERE TOO NARROW BUT HE DOUBTED THAT THEY WILL BE EXPANDED, ALTHOUGH HE WOULD WELCOME THIS. ACCORDING TO SCHMIDT, UNDER THE NEW SYSTEM, A TEMPORARY FLOAT COULD BE PERMITTED, BUT ONLY IN EXCEPTIONAL CASES. CONDITIONS FOR THE FLOAT WOULD HAVE TO BE TIGHTLY CONTROLLED.

3. SETTLEMENT OF IMBALANCES. UNDER THE NEW SYSTEM, LEADING NATIONS WILL BE REQUIRED TO USE THEIR MONETARY RESERVES FOR THE SETTLEMENT OF EXTERNAL IMBALANCES. THE FRG, ACCORDING TO SCHMIDT, HAS PROPOSED A COMPROMISE BETWEEN WHAT HE CHARACTERIZED AS QUOTE: THE VERY LAX US AND THE VERY RIGID EUROPEAN PROPOSALS, END QUOTE. HE THINKS THAT THE PROPOSAL TO ESTABLISH A NEW MULTI-CURRENCY INTERVENTION SYSTEM HAS A GOOD CHANCE OF ADOPTION.

4. ROLE OF CONSULTATIONS. CONSULTATIONS WILL BE A MAJOR PART OF THE IMPROVED ADJUSTMENT PROCESS. SCHMIDT SAID THAT THE FRG COULD NOT ACCEPT THE USG IDEA OF AUTOMATIC ADJUSTMENT. IN HIS VIEW, BEFORE UNDERTAKING

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AN AUTOMATIC ADJUSTMENT, A CONSULTATION PROCEDURE SHOULD BE INITIATED BY THE IMF, POSSIBLY RESULTING IN RECOMMENDATIONS FOR THE CONCERNED COUNTRY. IF THIS DOES NOT LEAD TO SUCCESS, PRESSURE FOR CORRECTIVE ACTION WOULD BE EXERTED. (COMMENT: SCHMIDT DID NOT ELABORATE ON THIS IDEA). SCHMIDT CONTINUED BY SAYING THAT THE INTERNATIONAL MONETARY FUND IS NOT IN A POSITION TO ASSUME THIS TASK, BUT THAT A NEW QUOTE POLITICAL UNQUOTE ORGAN SHOULD BE ESTABLISHED, SIMILAR TO THE COMMITTEE OF TWENTY.

5. CONSOLIDATION OF DOLLAR OVERHANG.. SCHMIDT SAID THAT DEVELOPMENTS MIGHT PROVE THE AMERICANS RIGHT IN THIS REGARD. IF THE US BALANCE OF PAYMENTS DEVELOPS FAVORABLY NEXT YEAR, THE DOLLAR FLOWS WILL BE IN THE DIRECTION OF THE UNITED STATES, SINCE THOSE HOLDING DOLLARS WILL BE WELL POSITIONED FOR MAKING A GOOD PROFIT.

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6. SUMMING UP, SCHMIDT SAID, THAT BETWEEN THE US AND THE EEC AND PARTICULARLY THE FRG, THE CONTROVERSIES ARE NO LONGER AS GREAT AS THEY ONCE WERE. OF PARTICULAR POLITICAL SIGNIFICANCE IS THE CIRCUMSTANCE THAT UNDER THE NEW MONETARY SYSTEM THE AMERICANS WILL NO LONGER BE IN POSITION TO PLAY THE DOMINANT ROLE. IT WILL BE PSYCHOLOGICALLY DIFFICULT FOR THE US TO RETURN TO A POLICY OF BENIGN NEGLECT UNDER A SYSTEM WHICH WILL HAVE BEEN CREATED WITH THEIR CONCURRENCE.
HILLENBRAND

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